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BEFORE THE
SENATE FINANCE COMMITTEE &
HOUSE TAX POLICY COMMITTEE
MICHIGAN LEGISLATURE

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Immediate Need for Meaningful Tax Restructuring

Critical Provisions Included in SB 296 & HB 4476

- 35% refundable personal property tax credit on manufacturing machinery & equipment
 - Provides meaningful property tax relief without adversely affecting local communities, schools, counties, etc
- Change in the apportionment formula to increase weighting to be based on 100% of sales
 - Reduces tax penalty on multi-state businesses when jobs or property are added in Michigan
 - Many states have adopted this apportionment formula in recent years
- Reduction in SBT rate from 1.9% to 1.2%
 - Every SBT taxpayer benefits from this provision

Tax Policy & Economic Development Considerations for Tax Restructuring

- Manufacturers pay a very high effective tax rate of 25% compared to an average effective tax rate for all Michigan businesses of 15%
- Manufacturers have moveable and mobile assets (machinery & equipment) that can be placed in any state or country
- Manufacturers have the greatest impact on jobs with a multiplier or spin-off of up to 9 to 1 (i.e., 9 jobs affected for every 1 manufacturing job)

Michigan's current tax system seems to be out of synch with economic development goals, because it levies the highest tax burden on an industry (manufacturing) that is the most mobile and has the greatest impact on jobs. These manufacturing jobs are coveted by every state and country, and Michigan's tax regime should encourage, not discourage, manufacturing.

Uncertainty in Business Tax Climate Must be Addressed Immediately

- The current uncertainty over how businesses will be taxed after 2009, when the SBT is scheduled to expire, causes business decisions that may be detrimental to Michigan's economy.

- No prudent business believes that the SBT will not be replaced with some other form of business taxation.
- Inducements offered by MEDC (e.g., Brownfield tax credits, MEGA, etc) will be discounted or ignored by companies, since it is not known whether these incentives (tax credits) will have any value to a taxpayer beyond 2009. Consequently, the tax cost of doing in business in Michigan may be overstated when companies compare investment alternatives between states.
- Uncertainty will cause other conservative tax cost assumptions to be factored into business decisions, which may not be favorable to Michigan.

REMOVING THE CLOUD OF UNCERTAINTY OVER THE FUTURE BUSINESS TAX SYSTEM, AND PROVIDING MEANINGFUL TAX RESTRUCTURING FOR MANUFACTURERS, SHOULD IMPROVE THE BUSINESS CLIMATE AND ECONOMY IN MICHIGAN